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SIPDIS  
TELEGRAM

April 13, 2003

To: No Action Addressee  
Action: Unknown  
From: AMEMBASSY ABU DHABI (ABU DHABI 1756 - ROUTINE)  
TAGS: PREL, ETRD, ECIN, ETTTC, ECON, KIPR  
Captions: None  
Subject: UAE MAY IMPOSE RETALIATORY TARIFFS ON SAUDI EXPORTERS  
Ref: None

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C O N F I D E N T I A L ABU DHABI 01756

SIPDIS  
CXABU:  
ACTION: ECON  
INFO: DCM POL P/M AMB  
Laser1:  
INFO: FCS

DISSEMINATION: ECON  
CHARGE: PROG

APPROVED: DCM: RALBRIGHT  
DRAFTED: ECON:CMCRUMPLER  
CLEARED: ECON: TWILLIAMS

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RR RUEHC RUEHGV RUCNWTO RUCPDOC RUEHRH  
DE RUEHAD #1756 1031133  
ZNY CCCCC ZZH  
R 131133Z APR 03  
FM AMEMBASSY ABU DHABI  
TO RUEHC/SECSTATE WASHDC 9383  
INFO RUEHGV/USMISSION GENEVA 0515  
RUCNWTO/WORLD TRADE ORGANIZATION COLLECTIVE  
RUCPDOC/USDOC WASHDC  
RUEHRH/AMEMBASSY RIYADH 1244

C O N F I D E N T I A L ABU DHABI 001756

SIPDIS

STATE FOR NEA/ARP, NEA/RA  
STATE PASS USTR - JBUNTIN  
USDOC FOR USPTO  
USDOC FOR 4250/DOC/MAC/ONE/CLOUSTAUNAU  
GENEVA PASS USTR

E.O. 12958: DECL: 04/13/08  
TAGS: [PREL](#) [KIPR](#) [ETRD](#) [ECIN](#) [ETTC](#) [ECON](#) [TC](#)  
SUBJECT: UAE MAY IMPOSE RETALIATORY TARIFFS ON SAUDI  
EXPORTERS

[11](#). (U) Classified by DCM Richard A. Albright for reasons  
1.5 (b) and (d).

[12](#). (C) Summary and comment: General Director of the UAE  
Federal Customs Authority Mohamed Al-Mehairi told Econoff on  
April 13 that the UAE is seriously considering retaliatory  
tariffs on Saudi exporters, in response to harassment by

Saudi customs officials of local traders exporting their goods into KSA. In violation of the GCC Customs Union (which came into effect on January 1, 2003) Saudi customs officials search each container passing through the UAE-Saudi border and charge UAE exporters up to a 12 percent tariff on the goods -- even though goods manufactured in the UAE (outside the free zones) are technically exempt from tax. The UAEG has called for a meeting this week in Dubai to resolve the issue, but is prepared to slap a reciprocal tariff on Saudi goods exported to the UAE. This provides further evidence that the GCC Customs Union appears for now to be little more than window dressing, and that even the mild-mannered Emiratis are willing to talk (and maybe even play) tough when politics affect the bottom line. End summary and comment.

¶3. (U) Al-Mehairi confirmed recent press reports that Saudi customs authorities are demanding up to a 12 percent tariff from certain UAE-based manufacturers, who also must undergo unreasonably lengthy inspections at the border and significant shipping delays. Instead of usual random checks, Saudi authorities open every container of goods exported and fail to repackage the shipment correctly. UAE traders complain of loss through breakage, loss of perishable items due to lengthy delays at the border, and demurrage charges in addition to the 12 percent tariff. The UAE Customs Authority heretofore has instructed local traders to pay the tariffs, assuming that refunds would be forthcoming once Riyadh provided clear instruction to its customs officials.

¶4. (C) According to Al-Mehairi, Riyadh argues that all products manufactured in the UAE use intermediate goods from the UAE's many free zones, and therefore are subject to the 12 percent tax. Al-Mehairi said the Customs Law clearly exempts items that are manufactured in the UAE (outside the free zones), regardless of the origin of the intermediate goods. The Saudi policy disadvantages UAE traders, who must pay a tax on whatever goods they import from the free zones, and then pay again when the final product is exported to KSA. Al-Mehairi confirmed that only Saudi Arabia is a problem; all other GCC countries are playing by the rules agreed upon last December.

¶5. (C) Al-Mehairi said that the UAE will demand that Saudi Arabia implement the GCC customs agreement immediately, and provide refunds to the UAE traders at a meeting of UAE and Saudi customs officials in Dubai on April 15. The customs officials may establish a joint committee under the aegis of the GCC Secretariat to manage this issue over the long-term. If the delegates are unable to reach consensus, Al-Mehairi says the UAE is prepared to impose retaliatory tariffs of 12 percent on Saudi products entering the UAE. "We don't want a trade war," he said, "but this practice is unacceptable and in violation of the GCC Customs Union Agreement." He noted wryly that this is the sort of behavior that has kept Saudi Arabia out of the WTO.

Wahba